
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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An Overview of Redevelopment Agency Debt

In response to a request Councilmember Faulconer made at the September 10, 2008 meeting of the Budget and Finance Committee, the IBA has prepared the following report to provide a better understanding on how much debt is owed to the City by the Redevelopment Agency, why the Agency incurs debt, how the debt was set up and how it is intended to be repaid.

Why does the Redevelopment Agency incur debt?

The Redevelopment Agency incurs debt to finance the activities identified in the project area's implementation plan. Tax increment is the primary source of financing the Agency's redevelopment activities. However, when a redevelopment plan is adopted, sufficient tax increment may not exist to initiate activities. Also, the Agency is constrained by Redevelopment Law in its ability to receive tax increment. Under California Community Redevelopment Law (CRL), all agencies in the state are *required to incur debt in order to legally receive tax increment*; an agency can only receive an annual tax increment amount that is no more than the project area's total indebtedness minus its' available revenue.

A variety of methods exist for an agency to incur debt, including tax allocation bonds (secured by tax increment), loans or advances from the city or county government, and other contractual obligations (i.e. tax sharing and developer agreements). Loans between the Agency and City are the primary source of initial funds in a project area. The requirement that the Agency incur debt to receive tax increment is why it has been essential for the City to loan funds to the Agency when a project area is first established; without this debt the project area would have been unable to receive any tax increment to fund redevelopment activities due to the lack of debt.

Per Redevelopment Law, a series of time limits exist on when a project area is able to incur debt and the timeframe that debt must be repaid. These limits, outlined below, are based on when the redevelopment plan was adopted. Also, key points are highlighted, including significant state actions.

Time limit to Incur Debt:

- Plan adopted before January 1, 1994 – Debt must be incurred within 20 years from the adoption of the plan; however, Senate Bill 211 allows time limits to be extended and/or eliminated.
- Plan adopted on/after January 1, 1994 – Debt must be incurred within 20 years from the adoption of the plan but can be extended an additional 10 years if blight remains.

Time limit on Repayment of Indebtedness:

- Plan adopted before January 1, 1994 – Debt must be repaid within 10 years from the termination of plan, but can be extended for an additional 10 years.
- Plan adopted on/after January 1, 1994 – A time limit must be established, not to exceed 45 years from the date the plan was adopted, to repay indebtedness with tax increment revenues.

The following table summarizes these time limits by project area for the City's Redevelopment Agency. Also, the table includes the maximum Tax Increment a project area may receive over the life of its plan and its limit on bond indebtedness.

Project Area	Plan Originally Adopted	Time Line for Effectiveness of Plan	Tax Limit (in millions)	Time Limit to Establish Debt	Bond Cap at any given time (in millions)	Time Limit to Receive Tax Increment to Pay Debt
Barrio Logan	1991	2032	\$307.0	2011	\$127.0	2042
Central Imperial	1992	2033	\$142.0	2012	\$46.2	2043
Central Imp 2	1996	2027	\$20.0	2026	n/a	2042
Central Imp 3	2000	2031	n/a	2020	n/a	2046
Centre City:			\$2,894.0		\$1,073.0	
Centre City Expansion	1992	2033	Included above	n/a	Included above	2043
Columbia	1976	2017		n/a		2027
Gaslamp	1982	2023		n/a		2033
Marina	1976	2017		n/a		2027
City Heights	1992	2033	\$713.0	2012	\$160.0	2043
College Community	1993	2034	\$307.0	2013	\$76.2	2044
College Grove	1986	2027	\$50.0	2027	\$20.0	2037
Crossroads	2003	2033	n/a	2023	\$100.0	2048
Gateway Center West	1976	2019	\$6.0	2004	\$6.0	2029
Grantville	2005	2035	n/a	2025	\$100.0	2050
Horton Plaza	1972	2013	\$240.0	2004	n/a	2023
Linda Vista	1972	2012	\$13.2	2004	n/a	2022
Mount Hope	1982	2025	\$47.0	2022	\$14.2	2035
Naval Training Center	1997	2035	\$215.0	2024	\$56.0	2050
North Bay	1998	2029	n/a	2018	\$93.0	2044
North Park	1997	2028	n/a	2017	\$53.0	2043
San Ysidro	1996	2027	n/a	2016	\$75.0	2042
Southcrest	1986	2027	\$87.0	2026	\$26.1	2037

*N/A-Limits not required/stated in implementation plan

It should also be noted that the State has previously, and may in the future, take action that enables time limits to be extended. For example, in 2005, Senate Bill 1045 was passed which mandated a shift in funds from redevelopment agencies to the Education

Revenue Augmentation Fund (ERAF) to balance the State budget. To offset the loss of tax increment revenue diverted to ERAF, the bill included a provision allowing agencies to adopt by ordinance one year extensions of redevelopment plans and the date all debt must be repaid to receive tax increment. This could occur again as a result of the State's recent budget actions which shifted a total of \$350 million in tax increment funding statewide from redevelopment agencies to ERAF.

How does debt get established?

In this section, the report will concentrate on the establishment of debt when the City loans money to the Redevelopment Agency.

The implementation plan that is developed when a redevelopment project area is adopted may include the identification of City loans as a source of financing the project's planned activities. For example, the following language is included in the Barrio Logan implementation plan:

“Advances and loans for survey and planning and for operating capital for nominal administration of this Project may be provided by the City until adequate tax increment or other funds are available, or sufficiently assured, to repay the advances or loans and to permit borrowing adequate capital from sources other than the City. The City, as it is able, may also supply additional assistance through City loans and grants for various public facilities.”

Upon adoption of the Agency's annual budget or through an amendment of the budget, the Agency may request a loan that will fund a project's implementation costs. As mentioned previously, loan requests are generally made when the project area does not have enough tax increment to support these expenses. The City has utilized a variety of funding sources to lend money to the Agency, including Sales Tax, General Fund, HUD (Section 108), and Community Development Block Grant (CDBG).

When a loan is approved by the Council and the Agency, the City Comptroller's Office records the principal of the loan and will update this information annually to note any repayments and the current amount of accrued interest to capture the full amount of the outstanding loan. Interest calculations are governed by Council Resolution R-282415, dated July 28, 1993, which identified an interest rate of prime plus 2% be applied to loans from the City to the Agency. This interest rate applies only to those loans established after July 1, 1993. Loans made prior to that date were based on the maximum rate allowed by law (from 1983 to 1993 that rate was 12%).

The next table identifies the principal and interest balance for the Redevelopment Agency by project area. In addition, the City has contributed \$1.5 million for survey areas in Dells Imperial and Pacific Beach.

FY 2008 - Principal and Interest Due by Project Area (Unaudited)

PROJECT AREA	PRINCIPAL BALANCE 06/30/2008	INTEREST BALANCE 06/30/2008	TOTAL DUE
Barrio Logan	\$ 12,826,041	\$ 13,014,298	\$ 25,840,339
Central Imperial	18,915,935	13,176,669	32,092,604
Centre City:			
Centre City Expansion	5,227,195	3,257,594	8,484,790
Columbia	4,308,079	5,834,179	10,142,258
Gaslamp	1,612,980	2,979,514	4,592,494
Marina	32,036,153	61,031,744	93,067,897
<i>Subtotal Centre City:</i>	<i>43,184,407</i>	<i>73,103,032</i>	<i>116,287,439</i>
City Heights	9,085,522	6,899,960	15,985,482
College Community	721,591	855,914	1,577,505
College Grove	40,963	28,969	69,932
Crossroads	793,294	320,179	1,113,473
Gateway	6,129,466	13,979,671	20,109,137
Grantville	506,729	141,772	648,501
Horton Plaza	-	-	-
Linda Vista	1,945,141	4,349,370	6,294,510
Mount Hope	3,918,314	1,301,911	5,220,225
Naval Training Center (NTC)	7,133,990	834,168	7,968,158
North Bay	1,735,391	516,279	2,251,670
North Park	1,687,879	1,150,507	2,838,386
San Ysidro	739,446	891,667	1,631,113
Southcrest	9,619,605	9,682,439	19,302,043
TOTAL ALL PROJECT AREAS	\$ 118,983,713	\$ 140,246,803	\$ 259,230,517

In terms of priority, loans from the City to the Agency are subordinate to the Agency's pledge of tax increment for tax allocation bonds or other long-term indebtedness the Agency may incur to carry out the plans of the project area.

How will the debt be repaid?

Repayments have occurred in the past, but in many instances, a loan repayment is made from one project area and a subsequent loan will be issued for another project area, thereby maintaining the same level of total debt owed by the Agency. This has been the most common form of repayment the City has seen in recent fiscal years.

As the IBA has noted in previous reports, a specific repayment schedule or plan does not currently exist (except for the time limit mandated by Redevelopment Law). The Mayor's Office has previously indicated that, in conjunction with the development of the Fiscal Year 2010 Budget, they intend to develop specific repayment programs and schedules for the Agency. The IBA envisions that this program will communicate, by each project area; the feasibility of repayment; when repayment will commence; how much will be repaid annually; and when repayment of outstanding loans will be completed.

An issue of concern is that all debt may not be repaid, primarily because City debt is the last to be repaid and the level of tax increment generated by certain project areas may not be sufficient. This table compares the total outstanding debt for the Agency (by project area) to the annual tax increment received. It is not expected that a single year's worth of tax increment would be sufficient to pay off the debt; however, in some instances, there is a significant discrepancy

PROJECT AREA	TOTAL OUTSTANDING DEBT TO CITY	ANNUAL TAX INCREMENT - FY 2007 (Unaudited)
Barrio Logan	\$ 25,840,339	\$ 533,132
Central Imperial	32,092,604	2,123,286
Centre City	116,287,439	95,537,427
City Heights	15,985,482	12,730,653
College Community	1,577,505	729,533
College Grove	69,932	673,421
Crossroads	1,113,473	3,785,701
Gateway	20,109,137	278,806
Grantville	648,501	447,270
Horton Plaza	-	8,533,334
Linda Vista	6,294,510	89,102
Mount Hope	5,220,225	1,445,349
Naval Training Center (NTC)	7,968,158	4,120,245
North Bay	2,251,670	7,251,850
North Park	2,838,386	5,887,348
San Ysidro	1,631,113	3,841,279
Southcrest	19,302,043	2,026,397
TOTAL ALL PROJECT AREAS	\$ 259,230,517	\$ 150,034,133

between the amount of debt owed and the tax increment received annually. For example, the Barrio Logan project area owes the City approximately \$26 million, but in Fiscal Year 2007 (unaudited) only half a million dollars in tax increment was received.

Debt repayment and the subsequent reuse of these funds depend on how the loan originated. As mentioned earlier, City loans have been made from the General Fund, Sales Tax, HUD, and CDBG. If a loan is made by the General Fund, when those funds are repaid, the City can easily reinvest these funds in general fund activities; however, in the same vein, a loan from the City to the Agency of CDBG funds, when repaid, is only able to be spent on CDBG eligible activities.

The Fiscal Year 2009 budget includes a loan repayment from the Centre City project area in the amount of \$7.5 million. It is envisioned that this loan repayment will be utilized to contribute a debt payment on Petco Park pending the City Council can make certain findings including that the project will benefit the redevelopment area; that no other means of financing is reasonably available to the community; and that the expenditure will assist in the elimination of blight and is consistent with the implementation plan. These findings are required according to Redevelopment Law, which limits an Agency's ability to utilize tax increment to pay for public improvements. The action that is needed to effectuate the \$7.5 million loan repayment from the Centre City project area in the current fiscal year is still pending and requires timely resolution.

Also, it should be noted that a loan repayment that occurs during the effectiveness period of the plan may impact the planned projects and/or the timing of these projects. These impacts should be fully articulated and considered when a repayment schedule is adopted.

Another avenue for consideration is the concept of City debt being repaid by the Agency and the Agency subsequently incurring additional indebtedness or bonds. This concept would allow the Agency to maintain its debt levels and secure project funding, while also allowing the City to receive funds.

CONCLUSION

The purpose of this report is to provide further understanding on redevelopment debt, particularly as it relates to the debt between the Agency and the City.

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